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INTRODUCTION

Houghton/Jones Neighborhood Task Force (HJNTF) entered into a contract with the Michigan Family Independence Agency (FIA) to perform the fiduciary function for the Family Preservation and Support Services program in Saginaw County. The contract number is BA 01-73004 for \$674,286.22 (funded by Catalog of Financial Domestic Assistance (CFDA) #93.558, Temporary Assistance for Needy Families). This contract covered the period November 13, 2000 through June 30, 2001. The contract stated that the HJNTF would be reimbursed for its actual costs incurred in providing the services.

SCOPE

The Office of Internal Audit performed an audit of HJNTF for the period November 13, 2000 through June 30, 2001 to determine if they complied with the terms of the contract with FIA, and if systems, procedures, and monitoring operations of HJNTF were in compliance with standards, policies, and regulations as established by FIA and the Federal guidelines. Our audit included HJNTF's sub-contacting policies, monitoring process, equipment purchasing policy, and year-end closeout procedures. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

EXECUTIVE SUMMARY

Based on our audit, we concluded that HJNTF billed FIA \$34,867.70 for expenses that were not allowable per the terms of the contract budget. Our report recommends that FOA initiate the process to recoup the \$34,867.70 from HJNTF. We also concluded that HJNTF was not in compliance with some of the provisions of its contract with FIA, and standards, policies and regulations established by FIA and Federal guidelines. The lack of compliance with Federal Office of Management and Budget Circular A-133 will result in a significant amount of questioned costs if HJNTF fails to implement appropriate

corrective action. A description of all the areas of noncompliance and our recommendations for corrective action follow.

HOUGHTON-JONES NEIGHBORHOOD TASK FORCE RESPONSE

The management of HJNTF has reviewed all the findings and recommendations included in this report. They responded to each finding in a letter dated August 24, 2001. A summary of their response is included after each finding.

FINDINGS AND RECOMMENDATIONS

All Sub-Recipient Contracts

1. HJNTF had written sub-recipient contracts that did not include the type of organization, a quality control clause, the method of payment (either actual cost or unit rate reimbursement), or a full list of services to be provided as required by the contract with FIA. The sub-recipient contracts also did not identify any of the Federal laws, regulations, or other provisions required to be included in the sub-recipient contracts, per the contract with FIA. The sub-recipient contracts should include this information to ensure that all sub-recipients are aware of the FIA program and financial reporting requirements.

WE RECOMMEND FOA work with HJNTF to ensure that they properly implement subcontracts, when contracting with HJNTF in the future.

HJNTF Response: HJNTF stated that they will include proper wording in the subcontracts in the future.

Sub-Recipients without a Subcontract

2. HJNTF received services from 11 different people with whom HJNTF did not have a subcontract. These people were Tutors for the children. Expenses for the services provided by these people were charged under the Miscellaneous line item, but they should have been contracted services expenses and charged under the Contracted Services line item.

WE RECOMMEND FOA work with HJNTF to ensure they have properly implemented subcontracts for all sub-recipients, when contracting with HJNTF in the future.

WE ALSO RECOMMEND that FOA instruct HJNTF to charge the Contracted Services line item for all the sub-recipients from this date forward.

HJNTF Response: HJNTF stated that FIA personnel had instructed them that certain sub-recipients without contracts should be placed under Miscellaneous and not under Contracted Services. HJNTF also stated that they will take appropriate corrective action.

Actual Cost Reimbursement

3. HJNTF billed FIA for costs incurred before they actually paid the bill. The contract states that they are to be reimbursed for expenditures. They do not have chargeable expenditures until the bill is actually paid.

WE RECOMMEND that FOA inform HJNTF that they may not bill FIA for expenses until they have expended funds to pay for those expenses.

HJNTF Response: HJNTF stated that for future billings they will bill only for expenditures actually paid.

Salaried Employees Billed as Contractors

4. HJNTF billed five employees' wages under the Contracted Services line item. However, these employees were HJNTF employees, and were paid through the employee payroll system. HJNTF also paid benefits for these employees. Wages paid to employees through the payroll system should be included in the Salaries line item.

Making these changes to the HJNTF billings will result in HJNTF exceeding the line item budget maximum by \$12,642.84 for salaries and \$1,712.47 for fringe benefits.

WE RECOMMEND that FOA either work with HJNTF to process a retroactive line item adjustment to include these HJNTF employees' wages in the proper line item in the budget, or initiate the process to recoup the over budget amounts of \$12,642.84 for salaries and \$1,712.47 for fringes.

WE ALSO RECOMMEND that HJNTF ensure that employees wages are included in the salaries line item in the future.

HJNTF Response: HJNTF agrees with this recommendation and will request a retroactive line item adjustment.

Contract Closeout

5. HJNTF spent an audited total of \$604,727.20. They received a net of \$639,594.90. The balance of \$34,867.70 is due FIA. See attached schedule for a breakdown of the differences by line item.

WE RECOMMEND FOA initiate the process to recoup \$34,867.70 from the Houghton Jones Neighborhood Task Force.

HJNTF Response: HJNTF does not agree with the amount due.

Subrecipient Single Audit Reports

6. HJNTF did not have a process in place to identify sub-recipients that received in excess of \$300,000 in federal funds. OMB Circular A-133 requires that the recipient of federal funds identify sub-recipients who receive in excess of \$300,000 in federal funds, obtain a copy of the Single Audit Report for those agencies, and ensure that appropriate corrective action is taken for all findings and questioned costs identified in the sub-recipient's Single Audit Report. Failure to obtain and review the audit reports and take appropriate corrective action for findings and questioned costs could result in loss of Federal funds for the program.

WE RECOMMEND FOA ensure that HJNTF is aware of the requirements for reviewing Single Audit Reports of its subrecipients, and implements a process to ensure compliance with this requirement.

HJNTF Response: HJNTF stated that they fully intend to have a process in place to identify sub-recipients who would receive in excess of \$300,000 in federal funds and therefore follow all requirements for sub-recipients under OMB Circular A-133.

Vendor or Subrecipient Determination

7. HJNTF did not have a process in place to determine whether their subcontractors were vendors or subrecipients. HJNTF is required to follow all OMB Circular A-133 requirements for subrecipients, but those requirements do not apply to vendors. Proper identification of subrecipients and vendors is necessary to ensure compliance with OMB Circular A-133.

WE RECOMMEND FOA ensure that HJNTF implements a process to determine whether each subcontractor is a subrecipient or a vendor.

HJNTF Response: HJNTF informed us that they intend to implement a process to identify which contractors are vendors and which are sub-recipients.

Recoupment

8. OMB Circular A-133 requires that federal funds be included as questioned costs by auditors for programs where the pass through agency did not monitor the subrecipient or review their Single Audit Report and take appropriate corrective action. HJNTF did not meet some of these oversight requirements for its subrecipients as stated in finding #6 and #7. If proper oversight requirements are not implemented, it will be necessary for FOA to start the process to recoup the entire amount of federal expenditures for this contract.

WE RECOMMEND that FOA determine if HJNTF complied with all monitoring and oversight requirements of OMB Circular A-133 subsequent to the completion of our audit, and initiate the process to recoup all federal funds expended under these

contracts for which HJNTF has not complied with the monitoring and oversight requirements.

HJNTF Response: HJNTF stated that they believe they are in full compliance with OMB Circular A-133.